

Massachusetts Department of Revenue Annual Report 1997



The Computerworld Smithsonian Award for Innovation in Information Technology

The Smithsonian Institution, Washington, D.C.

June 10, 1997



Mitchell Adams, Commissioner and Frederick Laskey, Senior Deputy Commissioner standing l to r:

Vincent Piccinni, Deputy Commissioner, Information Services Organization

Bernard Crowley, First Deputy Commissioner of Administration

Donald Evans, First Deputy Commissioner and General Counsel

Joseph Chessey, Deputy Commissioner, Division of Local Services

Robert Nevins, Deputy Commissioner, Research & Development Division

Joel Brodsky, Acting Deputy Commissioner, Enforcement Division seated l to r:

Jerry Fay, Deputy Commissioner, Child Support Enforcement Division

Amy Pitter, Deputy Commissioner, Taxpayer Service Division

Alan Golobski, Deputy Commissioner, Processing Division

Dear Taxpayer



Our economy seems transformed and we have enjoyed one of the longest sustained expansions in our lifetimes. One of the factors responsible, perhaps the most potent, is the increase in labor productivity due to information technology. This is the factor that has transformed the Department of Revenue. All of our critical performance measures have improved while our staffing has been reduced almost 30 percent. Pioneering computer systems have leveraged our human resources as never before. Six years ago we brought in \$4.5 million per full-time employee. Last year this figure had virtually doubled to \$8.5 million. But it isn't just computers. We couldn't have done this without people, and we have the finest team in state government.

Sincerely,

A stylized, handwritten signature in blue ink, appearing to read "Mitchell Adams".

Mitchell Adams
Commissioner

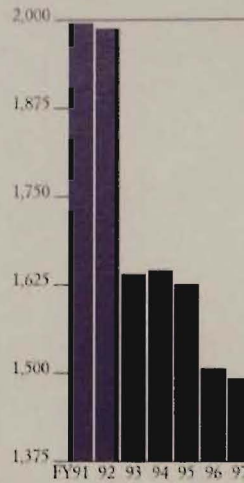
A handwritten signature in blue ink, appearing to read "Frederick Laskey".

Frederick Laskey
Senior Deputy Commissioner

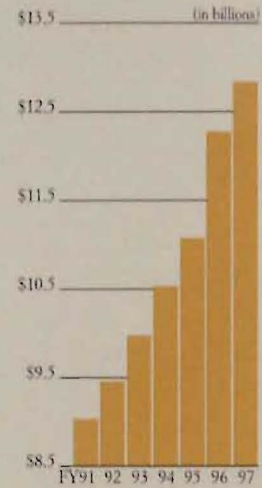
Cover: The Computerworld Smithsonian Awards, an international competition, recently recognized the Massachusetts Department of Revenue for its vision and leadership in the use of information technology. The Massachusetts DOR won the 1997 competition in the government and non-profit category for its imaging and TELEFILE tax filing systems.

The Department of Revenue has become smaller and leaner while revenue has grown, and other major performance indicators have improved.

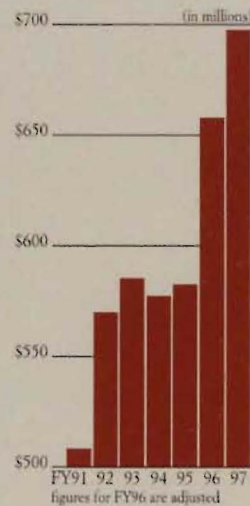
WORKFORCE



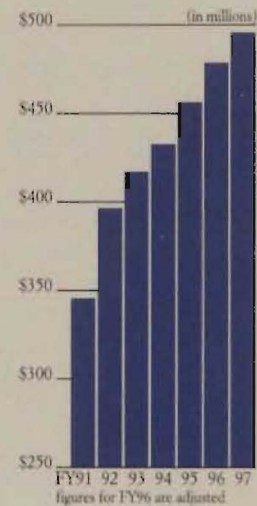
REVENUE



ASSESSMENTS



COLLECTION OF DELINQUENT TAXES

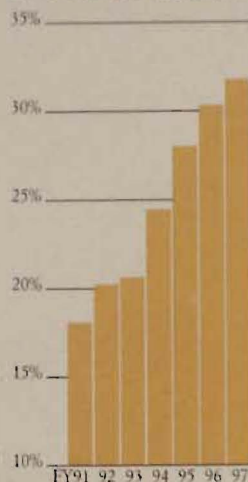


Audit assessments continue to increase, supported by an array of new information technologies. One of them analyzes huge volumes of data, reducing the average labor required for a large corporate audit from 600 to 250 hours. Comparable labor efficiencies have been demonstrated in the collection of delinquent taxes. Our TELEFILE, Imaging, and voice response systems continue to increase the efficiency of DOR employees and improve service to taxpayers. Last year waiting time on our taxpayer service lines, even at peak tax filing time, approached zero. A record 500,000 taxpayers received their refunds in four days, sometimes three.

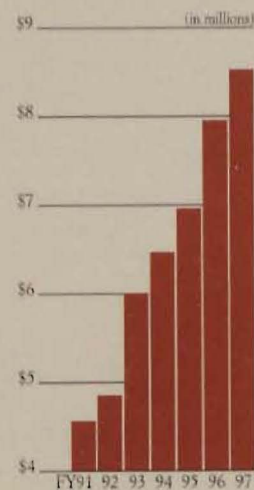


The relationship between the two charts at right is revealing and best describes the transformation. As the percentage of total resources dedicated to information technology has steadily increased, basic productivity has soared.

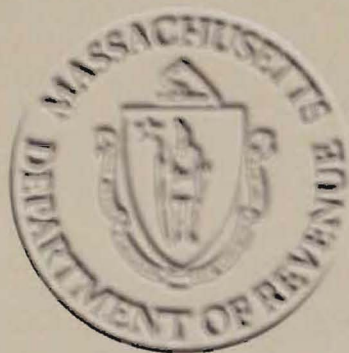
PERCENTAGE OF TOTAL BUDGET DEDICATED TO INFORMATION TECHNOLOGY



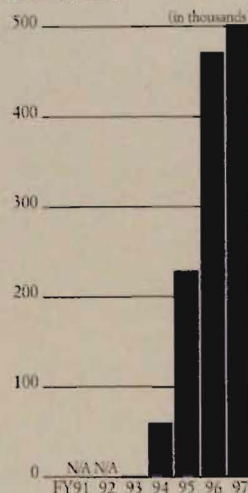
PRODUCTIVITY (REVENUE PER EMPLOYEE)



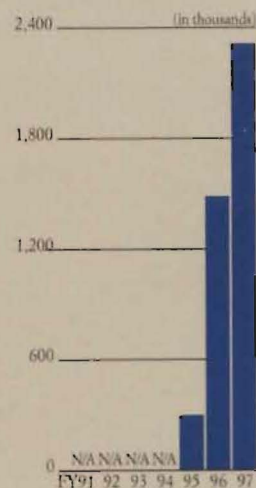
Four of our new technologies



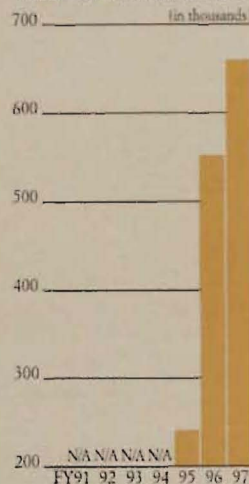
TAX RETURNS FILED ELECTRONICALLY AND BY TELEFILE



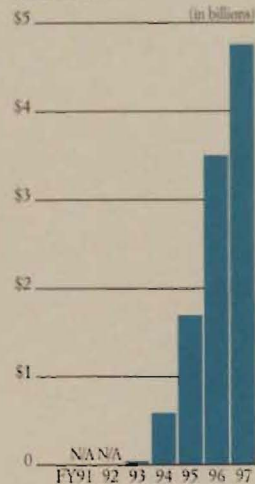
TAX RETURNS PROCESSED BY IMAGING



CUSTOMER CONTACTS MANAGED BY INTERACTIVE VOICE RESPONSE SYSTEMS



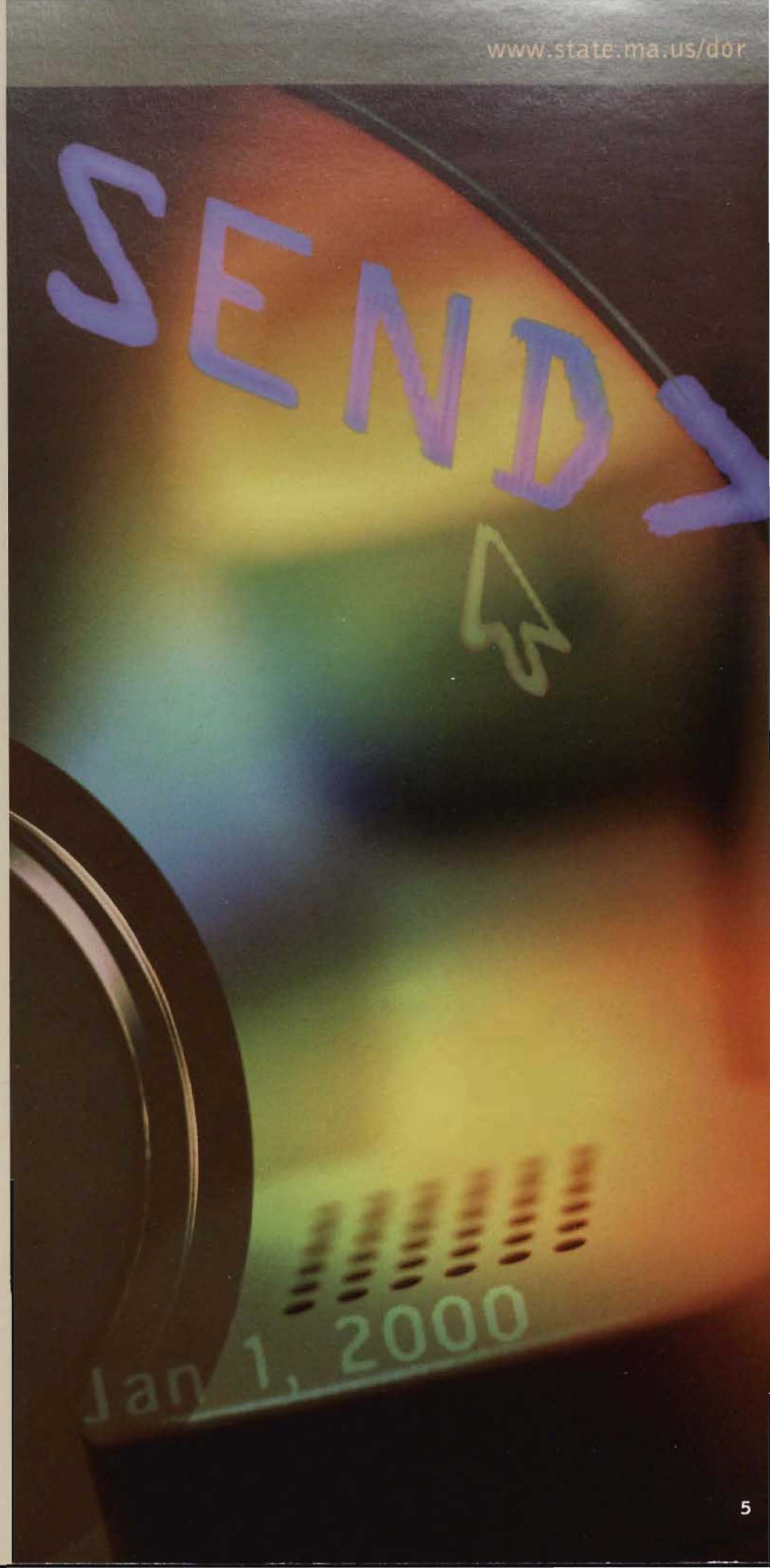
TAX RECEIPTS BY ELECTRONIC FUNDS TRANSFER



These four new technologies are revolutionizing the way tax administration is conducted by moving toward a paperless system for receiving tax information, by converting the payment routine to an electronic process, and by using “speaking” computers to meet the service needs of our taxpayers efficiently.

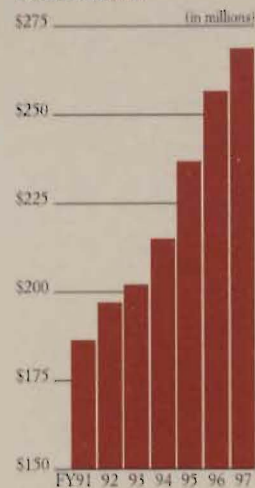
Our goal is to continually find the newest technologies which can do our work better, faster and at lower cost.

We have established an entire division within DOR, the Research and Development unit, whose mission is to find, develop and implement these technologies.

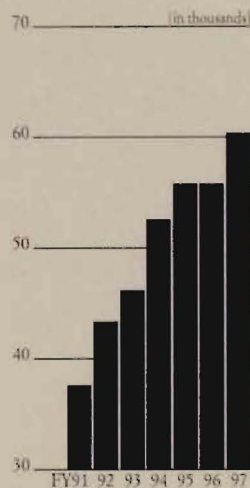


Information technology has transformed Child Support Enforcement as well. Two-thirds of all collections are now received by computerized wage garnishment. Critical performance measures have improved steadily.

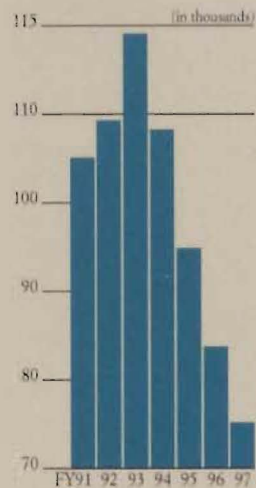
TOTAL CHILD SUPPORT ENFORCEMENT COLLECTIONS



FAMILIES RECEIVING CHILD SUPPORT



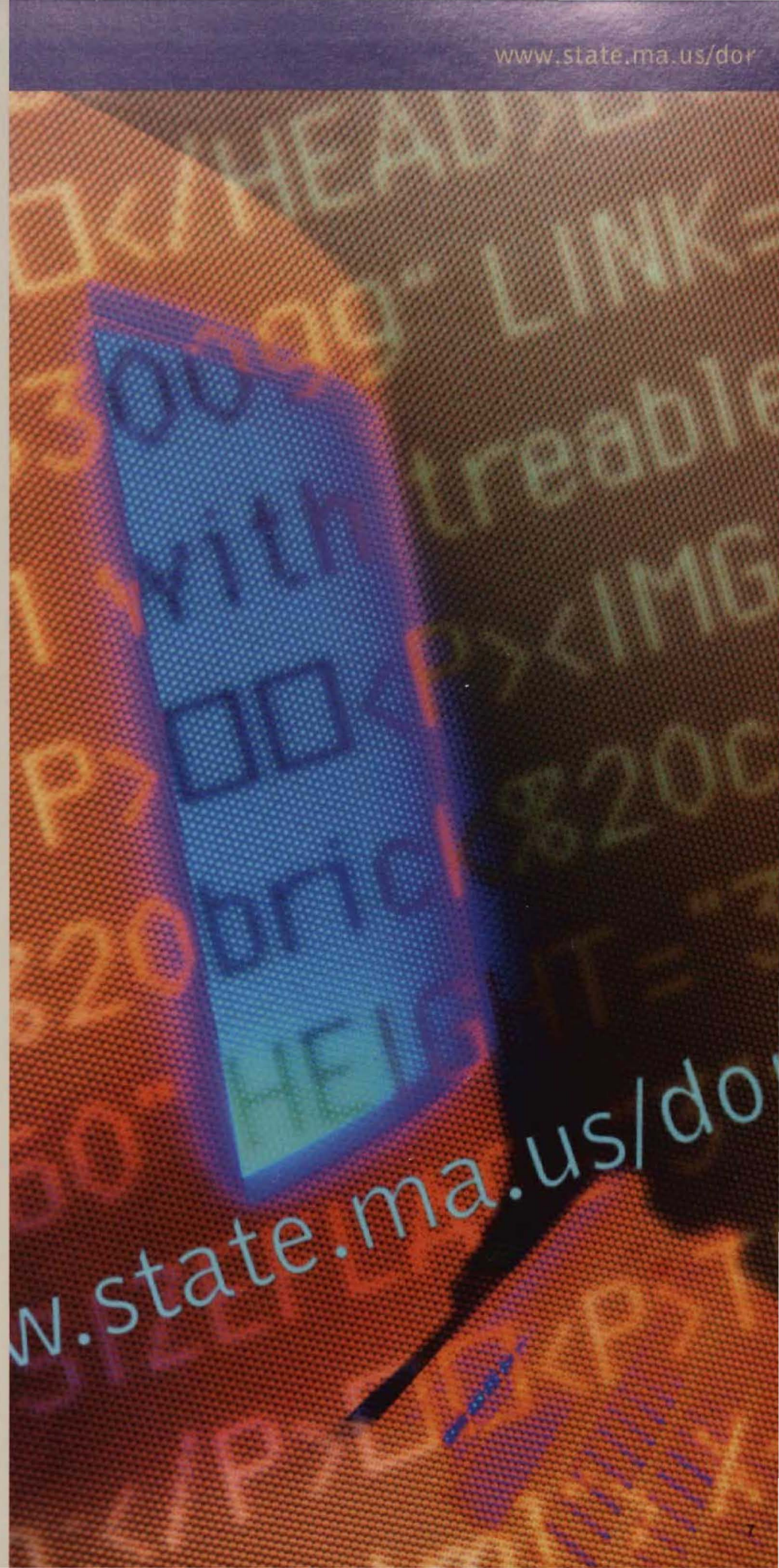
WELFARE (AFDC) CASELOAD



Child Support Enforcement is one of several factors affecting welfare caseload. Others include welfare reform measures, economic conditions, etc.



DOR's Child Support Enforcement Division is a model for the nation, because Massachusetts adopted the toughest laws in the country and implemented innovative and award-winning information technologies. With a staggering caseload of more than 230,000, significant performance gains could only be made by harnessing the power of computers. However, computers have limits. DOR's Individual Case Enforcement (ICE) Team conducts high visibility enforcement initiatives, including the "Ten Most Wanted" poster campaigns, in which 41 of 45 deadbeats have been arrested and forced to pay almost \$900,000 in delinquent child support. Last year alone, the ICE Team seized 23 cars and boats and made 220 arrests.



The Taxes Fiscal Year 1997

TYPE OF TAX	MEASURE	RATE ¹	RETURN DUE
Personal Income and Fiduciary Income	Dividends, net capital gains, ² interest other than Mass. bank interest and interest received by pawnbrokers	12.0%	On or before April 15 for calendar year filings. The 15th day of the 4th month for fiscal filings.
	Other income	5.95%	
Nonresident	Mass. source income		
Estimated Tax	Liability in excess of \$200		Due quarterly on or before the 15th day of April; June, September and January.
Withholding	Wages	5.95%	Varies depending on amount of tax withheld in calendar year. If annual withholding: Up to \$100 — Annual filing \$101–1,200 — Quarterly filings \$1,201–25,000 — Monthly filings Over \$25,000 — Quarterly filings, weekly payments
Estate ³	Taxable estate (after expenses, debts, losses, exemptions, charitable and marital deductions)	5% to 16%	Within 9 months after the date of the decedent's death.
Nonresident	Mass. real and tangible property		
Alcoholic Beverages	Malt (31-gal. bbl.)	\$3.30	Monthly, on or before the 20th day of the month.
	Cider 3%–6% (wine gal.)	\$.03	
	Still wine 3%–6% (wine gal.)	\$.55	
	Sparkling wine (wine gal.)	\$.70	
	Alcoholic beverages 15% or less (wine gal.)	\$1.10	
	Alcoholic beverages more than 15%–50% (wine gal.)	\$4.05	
	Alcoholic beverages more than 50% or alcohol (proof gal.)	\$4.05	
Cigarettes	20-Count package	\$.51 ⁴	Monthly, on the 20th day of the month. Unclassified importers must file upon importation or acquisition.
	Smokeless tobacco (percentage of price paid by licensee)	50% ⁴	
	Cigars (percentage of price paid by licensee)	15%	Quarterly, on or before the 20th day following the close of the tax period.
Deeds	Sales price (less mortgage assumed) of real estate	\$2.28 ⁵ per \$500	Monthly, on or before the 10th day of the month (filed by Registers of Deeds).
Motor Fuels	Gasoline and diesel fuel per gallon	19.1%	Monthly, on or before the 20th day of the month.
	Average wholesale price (21¢ minimum)		
	Propane, liquified gas, etc. (no minimum)	19.1%	
	Aviation (10¢ minimum)	7.5%	
	Jet fuel at local option (5¢ minimum)	5%	
Room Occupancy	Transient room occupancy	5.7%	On or before the 20th day following the close of the tax period. If annual liability: Up to \$25,000 — Monthly filings Over \$25,000 — Monthly payments, quarterly filings
	At local option, up to	4.0%	
Club Alcoholic Beverages	Gross receipts	0.57%	On or before April 15.

¹ Tax rates as of August 1, 1996.

² Effective for the 1996 tax year, the capital gains tax is 5% for assets (other than collectibles) held for more than one year. Effective for the 1997 tax year, short-term capital gains are taxed at 12%, gains on property (other than collectibles) held more than two years are taxed at 4% and if held one to two years are taxed at 5%.

³ An alternate computation of the estate tax is used if it results in a lower tax: 20% of Massachusetts net estate less \$600,000 exemption. On January 1, 1997 the estate tax becomes a sponge tax measured by the federal state death tax credit. The rate, as of 1/1/97, is between 0.8% to 16%.

⁴ Effective 10/1/96 the rate is \$.76 for cigarettes and 75¢ for smokeless tobacco.

⁵ In Barnstable County, the rate is \$3.42 per \$1,000.

TYPE OF TAX	MEASURE	RATE	RETURN DUE
Sales and Use Tax	Sale, rental or use of tangible personal property, including cigarettes, telecommunication services and certain fuel	5%	On or before the 20th day following the close of the tax period. If annual liability: Up to \$100 — Annual filing \$101–1,200 — Quarterly filings \$1,201–25,000 — Monthly filings Over \$25,000 — Periodic payments, quarterly filings
Sales Tax on Meals, Prepared Food and All Beverages	All "restaurant" food and on-premises consumption of any beverages in any amount.	5%	On or before the 20th day following the close of the tax period. If annual liability: Up to \$25,000 — Monthly filings Over \$25,000 — Monthly payments, quarterly filings
Business and Manufacturing Corporations	Net income Tangible property or net worth Minimum	9.5% ⁶ \$2.60 per \$1,000 \$456	15th day of third month after close of taxable year.
Estimated Tax	Liability in excess of \$1,000		Due quarterly as follows: 15th day of third month of taxable year — 40% ⁷ 15th day of sixth month of taxable year — 25% 15th day of ninth month of taxable year — 25% 15th day of twelfth month of taxable year — 10% ⁷
Security Corporation			
Non Bank Holding Co.	Gross income	0.33%	Same as business corporations.
Bank Holding Company	Gross income	1.32%	
	Minimum	\$456	
Financial Institutions			
Commercial Bank and Thrift Institution	Net income	11.72% ⁸	Same as business corporations.
Other Financial Institutions	Net income	10.50%	
	Minimum	\$456	
Public Utilities	Net income	6.5%	Same as business corporations.
Ship Excise Tax	Value (equity interest) of the corporation's interest in a ship or vessel engaged in interstate or foreign trade.	0.379%	Same as business corporations.
Insurance Company			
Domestic Life	Premiums	2.0%	On or before March 15.
	Mass. net investment income	14.0%	
Foreign Life	Premiums	2.0%	
Domestic Casualty	Premiums	2.28%	On or before May 15.
	Gross investment income	1.0%	
Foreign Casualty	Premiums	2.28%	
Ocean Marine	Underwriting profit	5.7%	
Marijuana and Controlled Substances Tax	Weight of marijuana Weight of controlled substance Dosage unit of controlled substance	\$3.50 per gram \$200 per gram \$2,000 per 50 dosage units	Payment due immediately upon acquisition or possession in Massachusetts by dealer. Payment evidenced by stamps purchased from the Commissioner.
Motor Vehicle garaged outside Massachusetts	90% to 10% of manufacturer's list price	\$25 per \$1,000	On or before 30 days from issuance of tax bill.

⁶ S corporations: 4.5% if total receipts \$9 million or more; 3% if total receipts are \$6 million or more but less than \$9 million.

⁷ 30% and 20% for corporations with fewer than 10 employees in their first full tax year.

⁸ Effective for the 1997 tax year the rate is 11.32%.

Revenue Collections Fiscal Years 1993-1997

(In Thousands)	FY93	FY94	FY95	FY96	FY97	FY96-97 %Change
STATE TAXES COLLECTED BY DOR						
Tax on Personal Income						
TOTAL	\$5,374,911	\$ 5,689,768	\$ 5,974,201	\$ 6,706,870	\$ 7,181,821	7.1
Taxes on Business						
Corporations	\$ 737,354	\$ 782,284	\$ 910,965	\$ 876,341	\$ 963,873	10.0
Insurance Companies	272,492	281,521	284,270	284,905	289,272	1.5
Public Utilities	69,123	81,797	88,726	132,890	109,220	(17.8)
Commercial Banks	74,661	136,880	164,529	150,583	98,984	(34.3)
Savings Institutions	78,193	62,969	41,447	68,047	41,249	(39.4)
TOTAL	\$1,231,824	\$ 1,345,452	\$ 1,489,937	\$ 1,512,766	\$ 1,502,598	(0.7)
Taxes on Commodities Sold						
Motor Fuels	\$ 557,179	\$ 562,584	\$ 577,501	\$ 598,773	\$ 602,841	0.7
Cigarettes	190,185	237,307	234,163	232,845	281,708	21.0
Alcoholic Beverages	60,623	60,211	60,728	59,741	60,302	0.9
Sales & Use ¹	1,820,972	1,978,774	2,136,971	2,252,083	2,494,702	10.8
Sales on Meals	303,193	323,365	344,329	358,010	381,364	6.5
TOTAL	\$2,932,152	\$ 3,162,241	\$ 3,353,692	\$ 3,501,453	\$ 3,820,916	9.1
Other Taxes						
Estate & Inheritance	\$ 267,273	\$ 277,533	\$ 209,281	\$ 188,021	\$ 202,707	7.8
Room Occupancy Excise	59,291	62,819	68,825	72,857	80,544	10.6
Deeds Excise ²	33,492	38,643	40,163	42,679	48,332	13.2
Club Alcoholic Beverage Excise	908	787	605	525	578	10.1
Motor Vehicle Excise	148	310	173	102	128	25.9
Controlled Substances	—	1	0	0	0	0.0
TOTAL	\$ 361,111	\$ 380,093	\$ 319,047	\$ 304,183	\$ 332,288	9.2
Total State Taxes Collected by DOR	\$9,899,998	\$10,577,554	\$11,136,877	\$12,025,272	\$12,837,623	6.8

¹Include sales and use tax on motor vehicles.

²Due to different accounting methods, amounts reported for the deeds excise differ from those amounts reported by the Comptroller.

Because of rounding, detail may not add to Totals.

The figures contained herewith are DOR figures pending the Comptroller's Fiscal Year 1997 Statutory Basis Annual Financial Report.

	FY93	FY94	FY95	FY96	FY97	FY96-97 %Change
LOCAL TAXES COLLECTED BY DOR ON BEHALF OF COMMUNITIES						
Urban Redevelopment	\$ 40,806	\$ 39,715	\$ 38,689	\$ 37,632	\$ 38,317	1.8
Local Option Airplane Jet Fuel	11,666	12,560	11,760	12,520	13,059	4.3
Local Option Room Occupancy	40,135	42,986	46,892	49,868	55,599	11.5
Total Local Taxes Collected by DOR on Behalf of Communities	\$ 92,608	\$ 95,262	\$ 97,341	\$ 100,020	\$ 106,976	7.0
OTHER REVENUE						
Utility & Insurance Assessments	\$ 8,000	\$ 5,738	\$ 7,055	\$ 8,598	\$ 3,386	(60.6)
Department Fees, Licenses, etc.	11,044	3,808	3,805	4,612	6,604	43.2
County Correction Fund — Deeds	1,670	5,650	5,844	6,204	6,969	12.3
Abandoned Deposits — Bottle	16,204	15,020	12,388	16,421	17,213	4.8
Total Other Revenue	\$ 36,919	\$ 30,216	\$ 29,091	\$ 35,836	\$ 34,172	(4.6)
STATE TAXES COLLECTED BY OTHER AGENCIES						
Horse & Dog Racing	\$ 15,666	\$ 14,155	\$ 13,996	\$ 11,377	\$ 10,185	(10.5)
Beano and Boxing	4,662	4,389	4,270	3,954	3,778	(4.4)
Raffles/Bazaars	1,143	1,085	1,094	1,024	1,023	(0.1)
Special Insurance Brokers	7,960	8,747	8,384	9,234	8,484	(8.1)
Total State Taxes Collected by Other Agencies	\$ 29,432	\$ 28,375	\$ 27,743	\$ 25,589	\$ 23,471	(8.3)
TAXES ON PROPERTY COLLECTED BY LOCAL GOVERNMENT						
Real Estate	\$ 5,006,995	\$ 5,194,156	\$ 5,402,459	\$ 5,611,382	\$ 5,838,099	4.0
Personal Property	242,681	270,259	298,608	309,312	322,086	4.1
Motor Vehicles	320,182	307,407	381,495	381,538	358,852	(5.9)
Total Taxes on Property Collected by Local Government	\$ 5,569,858	\$ 5,771,822	\$ 6,082,562	\$ 6,302,232	\$ 6,519,037	3.4
TOTAL ALL TAXES	\$15,628,815	\$16,503,229	\$17,373,614	\$18,488,949	\$19,521,279	5.6

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Offers in Final Settlement Fiscal Year 1997

Under M.G.L. c. 62C, sec. 37A, the Commissioner of Revenue has the authority, under specific conditions, to accept less than full payment as a final settlement for a state tax liability. The statutory condition for such settlement is "serious doubt" as to collectibility of the tax due or the taxpayer's liability for it. The Commissioner must also determine that the taxpayer or responsible person has acted without intent to defraud. The settlement must be recommended to the Commissioner by at least two deputy commissioners.

The written agreement, signed by all parties and including the reasons for settlement, is a public record. In cases where the liability is reduced by more than half, or by \$20,000 or more, the Attorney General of the Commonwealth must review the settlement and has the authority to object to it.

The law requires that a listing of all settlements entered into during the fiscal year be included in the Commissioner's annual report. In Fiscal Year 1997, 42 settlements were made. All 42 were reviewed by the Attorney General. The Department rejected 130 other offers.

The cases approved were as follows:

NAME	TOTAL TAX, INT. & PEN.	AMOUNT PAID IN SETTLEMENT	AMOUNT ABATED
Anderson, Robert G.	\$ 14,697	\$ 7,000	\$ 7,697
Bizzaro, William & Louise, responsible persons of Expo Media, Inc.	14,848	6,000	8,848
Bridgewater Reconditioning	6,471	1,368	5,103
Burton, David A.	159,312	80,000	79,312
CommEd Duplicating System	73,420	42,000	31,420
Cyr, Lisa M., responsible person of On The Avenue Restaurant	72,259	15,000	57,259
Dennehy, John S. Jr.	15,602	3,000	12,602
Derrico, Mark	9,377	2,500	6,877
Ennis, Steven B.	4,672	800	3,872
Estate of Bertha Moore	23,779	10,158	13,621
Frick, Rodney Allen	3,258	500	2,758
Gray, Robert	16,477	5,000	11,477
Griffith, Brian, responsible person of Two Wheel Drive, Ltd.	24,150	4,000	20,150
Grossman, Jeffrey, responsible person of The Back Store, Inc.	40,326	7,000	33,326
Jacobson, David M.	7,422	1,500	5,922
Keane, James M. and Kelley, James M., d/b/a Colorado Public Library and are responsible persons of KKM, Inc.	135,366	20,000	95,366
Kelley, Charles J. Jr.	16,360	4,000	12,360
Kirkland, Kenneth	31,096	2,000	29,096
Ladue, James J. Sr.	8,714	2,000	6,714
Lewis, Estate of Samuel M.	38,209	2,000	36,209
Lombard, Joseph N.	1,958	500	1,458
Lull, Thomas & Gail	29,854	5,500	24,354
Lynch, Susan	22,651	3,000	19,651
Malooof, William	26,806	18,000	8,806
McEachern, Mary	2,085	200	1,885
McIntyre, Bruce	36,225	10,000	26,225
Mennett, Paul & Toni	4,451	500	3,951
Newson, Anthony	5,062	500	4,562
Odyssey Two, Inc.	68,072	38,000	30,072

NAME	TOTAL TAX, INT. & PEN.	AMOUNT PAID IN SETTLEMENT	AMOUNT ABATED
Peck, Albert & Alice	17,627	7,000	10,627
Perperian, Vartkes A.	78,750	4,000	74,750
Reginald Sims, Estate	12,430	956	11,474
Romano, Michael & Darlene	6,431	500	5,931
Semad Systems, Inc.	28,890	8,000	20,890
Sklaver, William & Marjorie	6,322	1,200	5,122
Smith, Leonard C.	35,793	5,000	30,793
Spear, Woodrow & Natalie	11,977	3,500	8,477
St. Joseph's Club of Westfield	21,017	10,000	11,017
Stacy, Robert H.	4,150	1,200	2,950
Sylvia, Lionel	4,486	1,000	3,486
Warren, John M.	20,722	4,500	16,222
TOTAL	\$1,161,574	\$358,882	\$802,692

Because of rounding, detail may not add to Totals.

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Collection Agencies Fiscal Year 1997

Chapter 209 of the Acts of 1988 permits the Commissioner of Revenue to use private collection agencies to collect unpaid state taxes. The Commissioner is required to notify all taxpayers whose accounts are to be assigned to a collection agency at least 30 days beforehand.

The law requires that the Commissioner list all agencies with whom collection agreements exist, the amount of taxes collected and the amount of compensation paid in the Department's annual report. They are as follows:

CONTRACTOR	TOTAL COLLECTED	FEES PAID	NET TO DOR
Capital Credit Corp.	\$ 3,660,241	\$ 716,609	\$2,943,632
GC Services	4,795,864	577,197	4,218,667
Payco-General	1,968,399	381,598	1,586,801
TOTAL	\$10,424,503	\$1,675,403	\$8,749,100

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Massachusetts Department of Revenue



"...the finest team in state government."